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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

MAILING ONLINE SERVICE

Docket No. MC98-1

DIRECT TESTIMONY
OF
LEE GARVEY
ON BEHALF OF
UNITED STATES POSTAL SERVICE



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1 2 3	<u>Direct Testimony</u> <u>of</u> <u>Lee Garvey</u>
4	AUTOBIOGRAPHICAL SKETCH
5	My name is Lee Garvey. I serve as a New Business Initiatives Group Program
6	Manager in the Marketing department of the United States Postal Service. I am
7	responsible for managing the development of Mailing Online, a strategy designed to
8	provide small businesses with convenient internet access to First-Class and Standard
9	Mail.
10	A 25-year employee of the United States Postal Service, I began my postal
11	career as a letter carrier in the Arlington, Virginia post office. I have since held positions
12	as Station Manager, Account Representative, International Account Representative and
13	National Account Manager. In these latter positions I have worked extensively with a
14	wide variety of postal customers, and have been instrumental in analyzing and
15	facilitating solutions for a multitude of mailers' needs.
16	I have a bachelor's degree in business administration from Columbia Union
17	College in Washington, DC.

I. PURPOSE OF TESTIMONY

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2 The purpose of my testimony is to describe the current and planned operation of

3 Mailing Online. I describe the program, its operation, and the planned stages for

4 implementation of the service. I also address the potential effects of the service on the

established printing and mail markets, the objectives of the Mailing Online service, and

6 the business imperatives to which it responds.

II. PRODUCT DESCRIPTION

Mailing Online will allow postal customers with access to a personal computer (PC)1 and an internet connection to transmit documents created on their computer and have them printed and mailed, paying online in a single transaction. Mailing Online is a World Wide Web-based software application² designed for user-friendly access to commercial digital printing and mailing services via a Postal Service network control system. This service uses advances in technology to benefit our customers, especially individuals and small- and home-based businesses, who would not otherwise have access to sophisticated digital printing technology and to bulk automation mail rates.

The experimental Mailing Online service is planned to operate as follows. Customers will submit a document and a recipient address and data list electronically to

¹ Mailing Online is designed to accommodate a large percentage of the personal computers currently in use.

² The Postal Service will provide full service access via the World Wide Web, using browser functions in lieu of user-installed software. Lower costs, ease of use, and a desire for wider initial availability have focused development efforts solely on Web-based software. Greater functionality and increased user utility may be sought (footnote continued...)

1 the Postal Service via the internet. Word processing documents may contain merge 2 fields, in addition to the recipient's address, where data specific to the recipient can be 3 inserted. Customers will also have numerous choices regarding printing and finishing 4 specifications. Then, the digital files containing the document, address files, customer 5 information, and printing options will be processed through a computer network control 6 center, which performs multiple functions, including mail merge and variable data 7 merge if applicable, address hygiene, presorting and limited archiving. The control 8 center will create print files and distribute them directly to commercial print sites 9 according to destination ZIP Codes. The commercial print sites will be geographically 10 situated according to demand and will be equipped with high-quality digital printers and 11 finishing equipment. The plan is to add print sites incrementally as volume grows, with 12 an expected 25 sites in operation during 2001. The printers will print the documents as 13 specified, place them in permit indicia envelopes, prepare system-sorted batch 14 mailings, and transport them to a local office for acceptance, processing, and delivery 15 by the Postal Service. The mail will be entered as First-Class Automation Basic Mail or 16 as Standard (Regular or Nonprofit) Automation Basic DBMC Mail. Customers will be 17 charged the applicable postage rate, plus a fee covering the production and system 18 costs.

⁽footnote continued...)

through the future development of user-based software for certain types of Mailing Online customers.

1	Mailing Online currently accepts digital document files from two standard word
2	processing packages as well as three popular desktop publishing packages.3 Mailing
3	lists can be submitted in four standard PC formats. In order to take full advantage of
4	current print-on-demand technology, the Postal Service plans to utilize industry
5	standard print formats such as PDF and PostScript for transmission to digital printers.4
6	Initial service requirements and user features for Mailing Online were developed
7	through extensive focus group and end-user research. See LR-2., p. 2. The
8	requirements and features reflect the stringent user-friendly imperatives of the
9	individuals, small/home offices, and small enterprises who are expected to use Mailing
10	Online. These customer requirements include:
11	broad appearance and format flexibility, driven by the ability of desktop
12	publishing software to create—and digital printers to produce—complex
13	graphics, logos, and signatures;
14	 a wide variety of finishing capabilities, including a variety of binding and stapling

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options;

• the customization of output using recipient database variables under the control of the user, such as a person's account balance on an invoice.

[•] the ability to control when the mail piece enters the mailstream by scheduling a specific mailing date online;

³ Applications currently supported—MS Word™, WordPerfect™, PageMaker™, Ventura™ and Quark™—were chosen based upon market share at the time of technical specification. Future development will include additional applications identified by user demand studies. In addition, a universal Portable Document Format (PDF) input capability will be included to allow document creation using many unsupported applications.

⁴ Proprietary print solutions specific to a single manufacturer have been avoided intentionally to create the broadest possible opportunity for participation by any digital print provider.

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Mailing Online combines the power of desktop publishing and word processing
software with the speed and convenience of the internet; it combines the visual impact
of high-quality printing with the security, familiarity, and universality of hard copy
delivery by the Postal Service. By creating a service that integrates electronic mail
collection, mail preparation and assembly, and traditional hard copy mail delivery, the
Postal Service is responding to its mandate to provide an efficient nationwide system of
mail collection (39 U.S.C. § 403(b)(1)). It also responds to the mandate to "give the
highest consideration to the requirement for the most expeditious collection,
transportation and delivery of important letter mail" (39 USC § 101(e)), and to seek new
methods of accomplishing these tasks. Enhanced service options and increased
logistical flexibility, traditionally open only to large mailers, will now be available
electronically via the internet and Mailing Online to even the smallest mailer. This
furthers fulfillment of the Postal Service's responsibility to provide types of mail service
to meet the needs of different categories of mail and mail users (39 U.S.C. § 403(b)(2)).

III. IMPLEMENTATION

The Mailing Online implementation plan involves three stages: the current basic operations test, the expanded test ("market test"), and the experimental service.

A. Basic Operations Test

The first phase, a basic operations test, began on March 9, 1998, and will end in September, 1998. Tests are currently underway in Tampa, Florida, and Hartford, Connecticut, as part of the operations test for the Postoffice Online—the Postal

1 Service's internet access channel for small and home offices. For this test, a maximum

2 of 200 selected participants are using the Mailing Online prototype system to mail small

3 numbers of PC-produced documents to any domestic destination.

The basic operations test was designed to provide the Mailing Online developers with technical information and the experience necessary to define and refine the service, so that a request for a viable experimental service could be formulated properly. During the basic operations test, qualitative and quantitative market research findings of customer requirements are being tested against existing technological capabilities and refined into specific, technical product features and attributes. The basic operations test provides a means for the developers to evaluate assumptions about technical capabilities in the marketplace, to begin to evaluate costing assumptions, and to create a set of technical requirements for the operational components. Technical specifications, actual costs and specific operational requirements are undergoing continual review. For the current basic operations test. participants pay First-Class Mail single-piece postage for the mail that is produced, with printing and production charges covered by the Postal Service as part of the developmental costs.5

B. Expanded Test

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The expanded test is scheduled to begin September 1, 1998 in three metropolitan areas: New York, Boston and Philadelphia, using one printer located in the

⁵ This temporary arrangement also has the benefit of being an incentive for potential customers to participate in the test.

northeastern United States. The Postal Service expects to have a contract with the printer in early August. A second printer in another area may be added after the test begins. The expanded test is expected to continue until the implementation of the

experimental service.

The plan for this test is to allow a substantial increase in the number of participants from the current two hundred to several thousand. During this phase, we will conduct further tests of the technology and refine the relationships we need to establish and maintain with contract printers for the nationwide experimental service.

The Postal Service is requesting that the Commission recommend interim fees and an interim classification change for this phase as a market test of limited duration, pending a recommendation on the request for an experimental service. These interim changes are needed for a number of reasons. With the expansion of the service, the production and printing costs would exceed reasonable amounts for developmental purposes; a mechanism is needed to have them covered by the mailers at this point, rather than by the Postal Service. Second, in order to assess market demand and service requirements accurately, customers in this phase should be allowed access to discounted postage rates for both First-Class and Standard Regular automation mailings.⁶ Third, the development of projectible demand data must be premised upon actual customer usage when payment for printing services has not been waived. Without the interim fees, the Postal Service would be forced to scale back the

- 1 expanded test considerably, such as by limiting participation or volume in some way to
- 2 limit the accumulated loss. Such a scaled-back test, however, would necessarily
- 3 compromise one or more of these immediate objectives

C. Experimental Service

Following the market test, the Postal Service proposes that Mailing Online be offered as an experimental service for an initial period of up to two years. The primary distinction between the market test and experimental versions of Mailing Online is the availability in the latter of service to customers nationwide. In turn, the primary distinction between the experimental and permanent versions of Mailing Online could prove to be as simple as the presence of a nationwide network of print sites that permit uniform entry of mailpieces at destination entry rates under the existing eligibility criteria.

For the experiment, the Postal Service will expand the service by contracting with a number of printers in different locations, as described earlier, in order to provide more efficient service. The number of printing options also increases, perhaps to include full color printing. The increase in the number of printers and the expansion in printing options expected to accompany this phase make the application of a markup to defined costs an approach superior to a complex fee schedule while permitting specific options to be added or dropped during the course of the experiment. In the experiment,

⁽footnote continued...)

⁶ Access to Standard Nonprofit rates will not be technically feasible at this stage, since eligibility will have to be determined at the time of customer access. The software necessary to enable this is not expected to be finalized until the experimental phase.

- 1 the range of mailing options will be expanded to include First-Class, Standard Regular,
- 2 and Standard Nonprofit (assuming qualification).
- 3 The Postal Service is asking the Commission to expedite its recommendation on
- the experimental service so that there will be sufficient certainty to support the Postal 4
- Service's efforts to have major software publishers integrate Mailing Online into new 5
- 6 versions of their software expected in early calendar year 1999 and to conform to the
- 7 planned nationwide extension of access to customers.
- 8 During the experiment, the Postal Service will collect data as described in the
- Data Collection Plans in Appendices A and B. A determination to seek classifications 9
- 10 and fees for Mailing Online service would be made prior to the end of the two-year
- 11 period.

IV. POTENTIAL CUSTOMERS

- 13 We expect users would include a wide range of individuals, small businesses,
- home offices, and charitable organizations. For example, to mailers of a limited number 14
- 15 of invoices and statements--such as local merchants--Mailing Online offers a cost-
- 16 effective way to produce invoices easily, get them in the hands of customers quickly,
- 17 and thus accelerate cash flow. While most customers will be small organizations, some
- 18 use is also anticipated by individuals, as well as by larger companies for low-volume,
- 19 high-quality mailings.

1	The largest potential source of volume will be short-run, direct mail advertising
2	and solicitation, which we estimate will produce about half the Mailing Online volume.
3	Virtually all direct mail materials are designed using desktop computer technology; I
4	understand that about one-third are produced in short-run quantities. Mailing Online
5	will not be well suited for large volume direct mail or catalogs, because the economics
6	of on-demand digital printing are currently unacceptable for long runs. However, it does
7	make localized, short-run direct marketing feasible for smaller businesses that may
8	never have used direct mail before. Time-specific mail entry, graphic flexibility, and
9	production convenience are likely to be most important for these potential customers.

V. USER ACCESS TO MAILING ONLINE SERVICE

11 To use Mailing Online, a PC user will:

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- Produce and save a document using one of several popular word processing,
 office suite, or desktop publishing software programs.
 - 2. Produce a database of recipients' names and addresses, ranging from one to several thousand, as well as a list of any other variable data to be merged into the document. These addresses and data could be downloaded from existing commercial databases or created by the mailing originator.
 - Log on to the internet and utilize the PostOffice Online Universal Resource
 Locator (URL) or hotlink embedded in his or her computer desktop or browser application to access the Mailing Online World Wide Web pages.

⁷ We have defined short run as less than 5000 printed impressions.

Using a secure and easy-to-use file transfer procedure, transmit the
 document and list to the Postal Service server. The user will be asked to
 "proof" the document online and will be notified of addresses that cannot be
 matched with the Postal Service's Address Management System database
 and are therefore being purged from the list.

- 5. Call up the "electronic job ticket" from the Mailing Online menu to enter printing and finishing specifications, and to choose a class of mail appropriate to the material being sent and the sender's service expectations.
- 6. Approve and pay for postage and the requested printing and production fees via credit card, prepaid account, or other approved payment method.

Upon receipt by the Postal Service, print-image files of the documents and recipient address files will be created for subsequent batching and transmission to the print facility (or facilities) nearest the document destination(s). Address elements will be standardized and corrected so that mail produced will be completely automation compatible. Where possible, files with like printing and finishing options will be merged and batched before transmission to the printer. Each batch address file is presorted to the maximum depth of sort with a prepared manifest and mailing statement, for transmission along with the print files. The documents will then be printed, finished, inserted into envelopes, addressed with delivery point barcodes, and taken to a specified mail processing facility for makeup verification and delivery according to existing service commitments. Specifications, such as materials grade, paper weight, print resolution quality, and finishing options will be identified in printer contracts to

- 1 maintain system-wide consistency. Electronic confirmations will be provided to the user
- 2 when a document is received at the print site, when it is printed, and when it is
- 3 deposited into the postal mail-processing facility.

4 VI. GOALS

A. Program Goals

The primary goal of Mailing Online is to improve customer service by providing a convenient electronic means for entry of single piece and short run mailings that can capitalize upon automation compatibility. The experimental period will allow the Postal Service to determine whether the current specifications for the service are optimal. For the desktop computer-based mailer, Mailing Online is expected to reduce the aggregate cost of producing and entering a small mailing and provide a lower cost and more efficient way to use the mail. The testimonies of witnesses Wilcox (USPS-T-7) and Campanelli (USPS-T-8) confirm this expectation. Mailing Online will also provide convenient and easy-to-use electronic access to postal services for those small businesses not currently availing themselves of this medium for lack of ready mail production and preparation capabilities.

B. Operational Goal

The operational goal for the experimental Mailing Online service is to verify the capability of working with industry providers to build and operate a sophisticated nationwide distributed printing network as a user-friendly electronic means of inducting mail. This strategy of purchasing, as opposed to developing the capabilities in-house,

- 1 makes sense because the core functions and competencies of the Postal Service
- 2 include neither business software development nor printing and finishing. In addition,
- 3 technological developments in these industries occur rapidly too rapidly for the
- 4 Postal Service to keep up with on its own.

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VII. EFFECT ON THE ESTABLISHED PRINTING AND MAIL MARKETS

- 6 Mailing Online will promote the growth of direct mail and newsletter publishing
- 7 among small businesses because of Mailing Online's convenience and ease of use.
- 8 Consequently, it will increase the satisfaction of postal customers while providing new
- 9 business to printers, list brokers, and content providers.
- Furthermore, if the service is expanded nationally, it will create demand for
- 11 printing services, and mail production and assembly services, in potentially large
- 12 quantities, offering opportunities for private sector firms to benefit from Mailing Online.
- 13 The Postal Service is currently developing a procurement strategy which will ensure
- 14 that qualified print service providers have an opportunity to reap the benefits of new
- 15 revenue from this service.
- During the experiment we expect to demonstrate Mailing Online's overall
- 17 contribution to the utility and effectiveness of small-volume direct mail as a marketing
- tool, the net result of which should be an increase in business for the entire direct mail
- 19 services industry, including increases in list rentals, and new graphic design and
- 20 printing opportunities. In addition, auxiliary providers such as document design
- 21 software manufacturers and list maintenance-related services will benefit from
- 22 increased markets for their offerings.

It should be kept in mind that the target customer for Mailing Online is the relatively small mailer and the current non-mailer. It is believed that much of the existing volume in this segment is produced on desktop printers and entered at single-piece rates. These very small volume mailers will learn about the benefits of automation preparation and rates and may be inclined to seek greater discounts when their volumes increase, perhaps through the use of presort services or bulk hybrid providers.

The bulk hybrid mail segment contains several established players with reasonably sized businesses. I understand that while these companies compete for long-run, graphically simple, repetitive mailings, they do not currently target small-volume mailers. Nor do they offer widely-available internet services like Mailing Online, which instead seeks to leverage the convenience of a Web browser and the short run efficiencies of digital print devices.

Lettershops may be impacted by Mailing Online. Driven by users' desire for convenience, some of today's small volume lettershop mailings may migrate from current methods to the Mailing Online system. However, as small mailers adopt PC technology, this shift into electronic methods is likely to occur anyway, albeit more slowly and into more purely electronic communications methods such as end-to-end e-mail. If successful, Mailing Online could enhance the image of postal services among technology adopters, stem their migration to alternate methods, and enable creative lettershops to build more personalized and individually-responsive systems capitalizing on the online approach.

Digital print providers are aggressively pursuing on-demand printing
opportunities (see USPS-T-6). Most digital printing services do not themselves
compete with Mailing Online. Rather, as discussed by witness Hamm (USPS-T-6),
printers encourage the Postal Service to pursue Mailing Online actively, because it will
promote the awareness and use of digital printing generally, and printers are likely to

VIII. DATA COLLECTION

gain increased printing business.

In accordance with the Commission's rules for market tests and for experimental services, the Postal Service plans to report information to the Commission about Mailing Online transactions on a periodic basis.

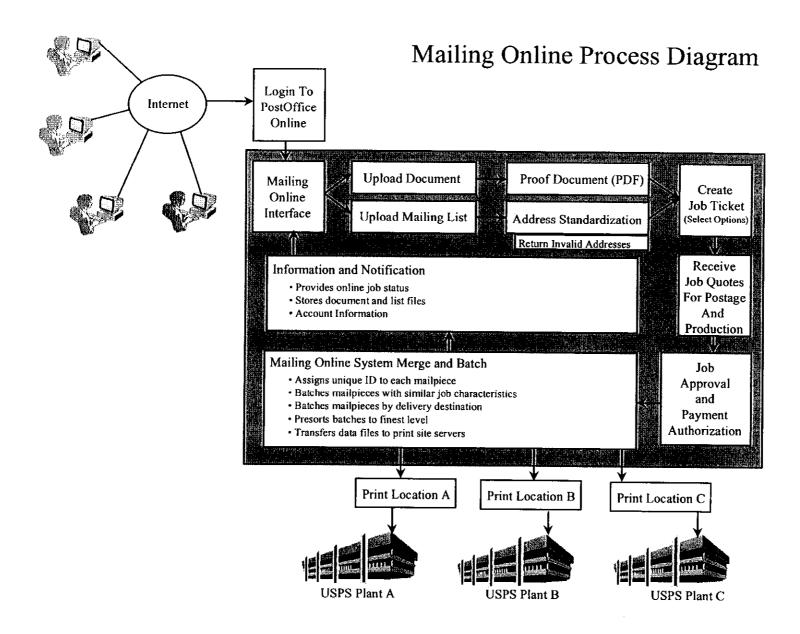
The categories of data to be collected during the expanded test and experimental period include revenues, volumes, costs and volumes by category of printing and class of mail. The Postal Service's existing data systems, including RPW and the CRA, will not be used to collect information about Mailing Online service.

Accordingly, other means of data collection and analysis will be employed. Such data collection efforts will be coordinated through Postal Service Headquarters, which will bear responsibility for preparing information for filing with the Commission. The Data Collection Plans for experimental and market test Mailing Online services are discussed in more detail in Appendices A and B, respectively.

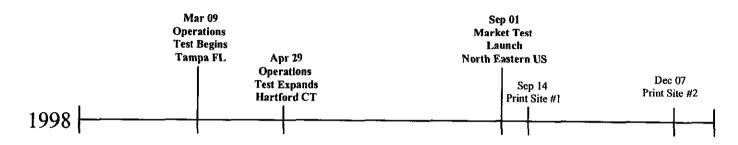
IX. CONCLUSION

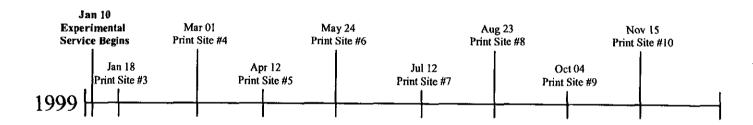
The proposals for a market test of Mailing Online service, followed an experimental offering of the service, are critical to the Postal Service's effort to provide

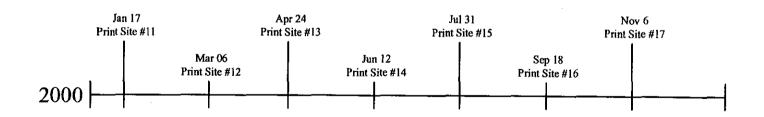
- 1 individual and small mailers convenient and cost effective access to letter mail services
- 2 and discounted postage rates. The Postal Service anticipates that the
- 3 recommendations requested of the Postal Rate Commission in this case will permit the
- 4 Postal Service to gauge customer demand and refine features of the service while
- 5 collecting data necessary to support a request for a permanent Mailing Online service.



Timeline for Mailing Online







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APPENDIX A

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EXPERIMENTAL DATA COLLECTION PLAN

Introduction

4 This appendix describes the Postal Service's data collection plan for the proposed experimental Mailing Online service (MOL), as required by Rule 67c. The 5 6 purpose of the data collection plan is to provide a measure of the effectiveness of the 7 proposed experiment and the data necessary to prepare a request for a permanent classification change, should the experiment prove successful. The plan has been 8 9 designed to collect data required by the Commission's Rules 64 and 54, and data 10 desired for postal management's evaluation of the proposed changes.

The data collection plan for the experimental Mailing Online service will focus on three main areas: specific mailpiece characteristics, cost avoidance, and customer preferences. In each area the purpose of the data collection will be somewhat different. The collection of mailpiece characteristics is intended to supplant the market research presented in Library Reference 2/MC98-1 by tracking volume, revenue and mail characteristics Since printing contractors will be geographically dispersed, Mailing Online volume should avoid some handling and/or transportation costs, which will also be quantified. Finally, we will track what features customers prefer. I discuss each of these separately below.

Most of the data will be collected via the Mailing Online server through which customer documents are transmitted. Mailpiece characteristics will be tracked via the Mailing Online software, permitting its subsequent analysis. No new statistical systems are necessary to enable the data collection effort. Additional market research,

- described below, will be conducted in parallel to evaluate mailer interest and obtain
- 2 additional information on the expected growth and development of Mailing Online. As
- the experiment gets underway, the Postal Service will ensure that all data collected
- 4 comply with this plan and with the requirements for a permanent classification change,
- 5 should one be warranted.

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Mail Characteristics

- 8 Mail characteristics data serve to permit the forecasting of specific demand
- 9 components for Mailing Online services. During the experiment, the Postal Service
- intends to compile the following demand data elements:
- 11 Total transactions
- Total volume, broken down by simplex, duplex, and color
- 13 Total pages
- 14 Total revenue
- 15 Volume by subclass
- 16 Volume by shape
- 17 Volume by page size
- 18 Volume by envelope type

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- 20 The Mailing Online server compiles these data elements for each transaction. The
- 21 Postal Service plans to report this information to the Commission at the end of each
- 22 quarter during the experimental period.
- 23 Mailpiece characteristics data will also serve the secondary goal of assisting the
- 24 development of requirements for selecting MOL printing contractors.

Cost Avoidance

As additional print sites are brought online, the Postal Service plans to collect data that will permit estimation of mail processing and transportation cost avoidance resulting from the downstream entry of Mailing Online volume due to the distribution of printing sites. Quantification of these costs will allow for a more precise measure of the financial impact of Mailing Online. The observed density of Mailing Online volume during the experimental period may indicate that different rate categories or elements than those proposed to be applied during the experiment are more appropriate.

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Customer Preferences

During the experiment, the Postal Service will attempt to measure customer opinion and preference regarding a variety of service attributes such as convenience, usefulness, ease of use, and value. While the primary purpose of such research is to refine the product to conform more closely to customer expectations, this research will also fulfill a purpose more closely related to the instant filing. The market research which supports the MOL volume projections estimates that 38 percent of MOL volume will be new to the Postal Service. (LR 2/MC98-1, p. 38) Further research will attempt to determine whether actual experience comports with this estimate.

In addition to validating the volume estimates, the Postal Service will attempt to measure the need for additional MOL features, the degree to which customers are satisfied with MOL, and the effect that price and other service attributes have on customer use of the service.

APPENDIX B

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MARKET TEST DATA COLLECTION PLAN

3 As described in my testimony, the market test of Mailing Online will begin with a

- 4 single printing location. Consequently, it will not be possible to examine the cost
- 5 avoidance issues that will be studied during the experimental offering of the service.
- 6 Otherwise, the Postal Service proposes to study mailpiece characteristics and customer
- 7 reactions using the methods described in Appendix A.
- 8 However, due to the smaller customer base that will be available during the
- 9 market test, the Postal Service plans to conduct more frequent reviews of available
- data, and make more frequent contact with test customers. As a result, the Postal
- Service proposes to report all operational statistics and customer feedback data each
- 12 Accounting Period.